CAPITAL MARKETS UNION: STATE OF PLAY AND FUTURE PRIORITIES

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CMU – looking towards the next political cycle

The EU has come a long way in developing its capital markets over the past few decades. The Commission has taken action on all the topics of the second Action Plan on Capital Markets Union and many legislative proposals have been agreed with the European Parliament and the Council. However, the integration of capital markets within the EU still lags well behind the integration of markets for manufactured goods and labour. This means that EU capital markets fall short of what the EU needs.

This has enormous opportunity costs, such as lower potential economic growth, less resilience to economic shocks and less choice in financial products for EU citizens. On top of this, more opportunity costs are emerging. One is the inability to finance the generational challenge of transitioning to a climate-neutral and digital future. This 'twin transition' requires the mobilisation of huge amounts of private money - and capital markets are a vital channel for this. Another opportunity cost is less capacity for innovation, due to a lack of financing opportunities for higher-risk projects, which need direct funding sources provided by capital markets.
The coming decades will most likely see fierce competition between economies for innovative, high-tech industries. If the EU cannot compete in the innovation race, it will fall behind economically and risks not being a relevant economic contender at all. In this future landscape, the opportunity costs of not having large and liquid EU capital markets are stark. Capital Markets Union is not just a 'nice-to-have' but a 'must-have' for Europe, alongside an integrated banking system.

With the stakes so high, it begs the question as to why progress is so slow on developing and integrating EU capital markets. Often the answer involves political will, which in turn is impacted by a number of factors. Take market integration, for example, which requires taking a myriad of very specific and technically complex actions. This makes it hard to build an appealing narrative. Capital market integration isn't easy from a "portfolio" perspective either, as many of the measures extend well beyond the financial services sector. Vested interests are another challenge, because the benefits of market integration are large yet typically diffuse, whereas its costs are more concentrated among vested interests and are therefore readily brought to the attention of national governments. Lastly, competition among Member States for the location of financial service providers in a multi-polar EU capital market landscape further complicates things.

Against this backdrop, it is encouraging to see the recent dynamism of the political debate on Capital Markets Union and the high-level political support being expressed. We have seen it included in repeated European Council conclusions; the joint declaration by the troika of Council Presidencies, the Parliament and the Commission to conclude legislative work on all the outstanding CMU legislative proposals; and the Eurogroup's work to identify priority areas for capital market policy by this coming March.

Capital Markets Union has to be about one large and developed capital market for the EU as a whole.

Meanwhile, the Commission is starting its own internal reflections on possible areas for future action. While the specific priorities will be defined by the new Commission later this year, I believe that they should reflect the need for our capital markets to increase in size and liquidity in order to become more efficient and competitive. This means we need to be careful about calls for a greater national focus in the approach to EU capital markets – the so-called 'bottom-up' approach. While this approach has its merits, national specificities are very often a source of fragmentation rather than an opportunity. Capital Markets Union has to be about one large and developed capital market for the EU as a whole and not a collection of separate national markets, however developed they become. Therefore, in building a single EU market, we must focus on the fundamental features that characterise any single market. These include a common insolvency law, common tax procedures, common supervision, common accounting standards and common corporate laws.

I am confident that, if we keep these considerations front and centre, and if we make use of the current political momentum in favour of Capital Markets Union, we will be able to make changes in our capital markets policy that make a real difference, benefiting markets and the economy as a whole, and most importantly, all EU citizens.

VERENA ROSS
Chair - European Securities and Markets Authority (ESMA)

A collective endeavour towards a shared vision for EU capital markets

Capital markets have always played an important role in the development and modernisation of European economies. In the Netherlands in 1602, the establishment of the Amsterdam Stock Exchange and the creation of the world's first publicly traded company marked the birth of modern capital markets, a pivotal moment in economic history. The Industrial Revolution in the 18th and 19th centuries saw the emergence of stock exchanges across Europe playing a crucial role in financing industrial expansion and new technologies. After World War II, with Europe facing the daunting task of reconstruction, capital markets again helped to channel funds from the Marshall Plan to help rebuild industries and foster economic recovery.

In the intricate tapestry of European financial markets, the Capital Markets Union (CMU) stands as a bold endeavour with the aspiration of an integrated, resilient, and competitive European capital market landscape. Despite much progress over the years to deepen and further integrate our capital markets in the EU, completion of a genuine CMU remains work in progress.

The 49 measures rolled out through the Action Plans of the European Commission in 2015 and 2020 represent in my view incremental yet vital steps forward. The positive effects of some of these initiatives, like the European Single Access Point or the consolidated tapes, will be likely demonstrated over time. Similarly, other ongoing changes, like the Listing Act reform, should bring some tangible benefits in terms of regulatory and procedural efficiency.

Alone, each of these measures may only produce marginal improvements. But together, they represent a meaningful step forward. Having said that, I would argue that there is still a necessity to further shape a capital market ecosystem in the EU that will genuinely serve the needs of citizens and businesses.

While there is still space for additional EU-led regulatory initiatives going forward, for example in reviving the securitisation market or improving the agility of rulemaking, there are limits in terms of what such measures can achieve in isolation. Therefore, we must think more broadly. Financial regulatory measures at EU level must be complemented by national efforts to truly fortify the effectiveness and attractiveness of EU capital markets. These should include, for example, the implementation of tax policies that would stimulate investments at the domestic level, or comprehensive reforms in national pension frameworks to mobilise significant pension capital, which can provide greater long-term benefits for citizens. While recognising the unique strengths and challenges in each EU Member State, these national measures must harmoniously coalesce with EU efforts, creating a more holistic strategy to propel the CMU forward.

The same holds true for the financial services industry. Ensuring the mobilisation of long-term capital for the challenges that the EU economy faces demands not only supportive regulatory, legal and fiscal frameworks but also proactive engagement and ingenuity from financial institutions. The onus is on the industry to design and offer suitable financial products that resonate with retail investors caring for their savings returns and future pensions. Simultaneously, responsible investment advice, focused on the best interest of the client, becomes paramount - guiding retail investors toward informed decisions that align with their financial goals and risk appetites. By embracing this role, the financial industry can become a key driver in bridging the gap between retail investors and the capital markets, fostering trust, confidence, and integrity.

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Furthermore, EU regulators and supervisors also have additional work to do. We must continue to drive towards both a more agile regulatory framework and more consistent and harmonised day-to-day supervision, to tackle fragmentation and avoid diverging supervisory outcomes.

As in the past, when Europe turned to its capital markets to support economic and societal transformations, the EU again stands on the precipice of major change. The Commission has estimated that the green transition will require additional investment of €620 billion per year, while the digital transition will require a further €125 billion per year. These funding pressures are compounded by other demographic, geopolitical, or societal changes, such as the ageing EU population.

We need a collective effort and common vision, across all public and private sector actors in the capital markets to shoulder this challenge. As ESMA, we will continue to bring our energy, expertise and EU spirit to bear in order to drive forward an effective EU capital markets and a genuine CMU.

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BERTRAND DUMONT

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A renewed, pragmatic approach to the CMU

The deepening of European capital markets will be crucial to finance the dual ecological and digital transitions and, more broadly, to strengthen Europe's strategic autonomy and global competitiveness. This observation is now widely shared in a context where public finances face growing pressures and traditional bank financing is constrained by prudential requirements. This new sense of urgency has led Ministers Lemaire and Lindner, in a joint op-ed, as well as other European leaders, to put the Capital Markets Union at the top of political discussions in recent months.

As the mandate of the current European Commission nears its conclusion, the timing is opportune for an assessment of the progress made since 2015 and to contemplate potential adjustments in the approach moving forward. During the last two Commission mandates, we have conducted a dense legislative work, through successive reviews of the whole EU financial markets regulatory framework. However, the effects remain disappointing at this stage: the disparity between EU and US equity market capitalizations has widened, deposits still constitute 34% of EU households savings and European companies continue to tap capital markets far less than their US competitors.

Progress may have been hampered both by the heterogeneity in the level of development of capital markets and the multiplication of pursued objectives. These mixed results, combined with the intensity of the legislative activity, has at times contributed to a discernible "CMU fatigue" among some Member States and industry stakeholders. It should nevertheless be acknowledged that some recent achievements could yield interesting results however, notably with the upcoming consolidated tapes, the creation of the European Singles Access Point and the launch of ELTIFs 2.0.

In this context, France would like to propose a new approach moving forward, with more clearly identified objectives and benchmarkable progress. Each key action could be directed towards three central objectives for the success of the CMU: mobilizing the abundant savings pool of EU households, improving the funding conditions for EU businesses and facilitating the development of pan-European capital markets champions.

In a new approach, European policymakers, legislators but also key institutions such as the ECB, the EIB and ESMA, would focus on a limited number of truly ambitious and transformative actions. To mobilize the massive European savings, a joint work among like-minded Member states could explore how coordinated actions could enhance its channelling towards the funding of our firms. The revitalisation of the EU securitization market is another priority action frequently discussed. While prudential adjustments are acutely needed, other actions could be considered in order to stimulate both the supply and demand side for securitized assets. On supervision, rather than repeating past discussions, we might explore a pragmatic approach starting with concrete business cases of some pan-European players which are put at a disadvantage due to the fragmentation of supervision for market activities.

Moreover, considering the apparent decline in market shares of European players in key financial services segments, the potential impact of any action on the competitiveness of EU market participants should be systematically assessed within the new agenda.

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In order to identify key measures which could structure the future Commission's agenda under the new approach suggested, Minister Le Maire has recently tasked an expert group comprised of several finance experts from private and public institutions, chaired by former Banque de France Governor Christian Noyer.

In parallel, discussions are currently ongoing at the Eurogroup level and will lead to a final report presented in March. While agreeing on the concrete tools could be challenging over this course, agreeing on the main objectives and the approach to conduct would be an encouraging first step, laying the ground for constructive discussions in a second phase.

In addition, to these EU level reforms, there is a widely accepted recognition of the necessity to promote capital markets development at the national level, in a bottom-up approach. This is seen as a complementary effort to the initiatives undertaken at the EU level. Several Member states have recently introduced comprehensive domestic reforms aimed at fostering the growth of their capital markets and enhancing the appeal of listing for their companies, which is a highly positive development.

MARKUS FERBER

MEP, Committee on Economic and Monetary Affairs - European Parliament

Member states need to step up to achieve a Single Market for financial services

The Single Market is at the very heart of European integration and is also an engine for wealth creation within the European Union. In many areas, we have made great progress at moving towards a fully integrated Single Market. However, the same cannot necessarily be said for the Single Market for financial services. Both the Capital Markets Union and the Banking Union still remain "work in progress".

However, there has not been a shortage of attempts to change this unsatisfactory status quo. On the contrary, the European Commission has presented various ambitious proposals that would have contributed to a better integrated European market for financial services. In many instances, the European Parliament was also quite supportive to push this agenda forwards. The culprit for why we did not make more legislative progress in the past couple of years is easy to identify: during negotiations on various financial services files, the Council, i.e. EU Member States, has been pushing back against deeper integration, instead championing carve-outs, grandfathering clauses and national options.

This pattern of obstruction becomes most obvious in the area of supervision, where the Council has time and again succeeded in watering down the Commission's proposals for either a European level of supervision or at least a better and more structured cooperation of national competent authorities in cross-border cases. In certain instances, there is actually a strong case for designating European authorities with certain supervisory powers.

After all, financial markets are often transnational in their very nature and arbitrarily designating supervisory responsibility based on national borders makes supervision more complicated and less effective. Having a more European approach to supervision with stronger powers for the three European Supervisory Authorities would certainly help integrating European capital markets better. However, this will only work once Member States are ready and willing to give up a small part of their supervisory powers.

The other two big roadblocks that are holding back the integration of European capital markets are the fragmentation when it comes to insolvency proceedings and taxation. Cross-border investments lose a lot of their appeal if investors must fear that, in case of failure, they cannot recoup any of their investments due to complex, opaque and materially different insolvency procedures in another jurisdiction. The same goes for taxation: Currently, cross-border investments are comparatively unattractive, not least due to the complicated procedures when it comes to offsetting or reimbursing withholding taxes. These complicated procedures make cross-border engagement particularly unattractive for retail investors.

Both points, the fragmentation in relation to insolvency and taxation issues, are nothing new though and multiple attempts have been made to resolve them over the years. Unfortunately, the progress that been made is quite limited. Both issues go to the very heart of national sovereignty and thus require a political consensus in the Council. This has been hard to come by in the past.

That shows: Progress towards a true Single Market for financial services, requires national ownership. As the lack of progress can be clearly traced back to the Council, this is where the problem needs to be addressed in the first place. However, the idea proposed by the French government for a Capital Markets Union of different speeds is not the right way forward. Such an approach would only increase the fragmentation between those that want to move quicker and those that want to move less quickly. What is needed is a clear an unambiguous agreement in the Council regarding how a reinforced Capital Markets Union could look like. However, such an agreement wold only help if it does not omit the most controversial points such as insolvency, taxation and supervision. The reports by Mario Draghi and Enrico Letta, which deal with European competitiveness and the Future of the Single Market respectively, could help with building a foundation for that process, but only if they are bold enough to also address the most controversial points.

Progress towards a true Single Market for financial services, requires national ownership.

In the end, everything will depend on Member States' ability and willingness to compromise, which in the past couple of years was unfortunately not very pronounced. Historically, most progress has been made when their was a strong external push such as a financial crisis, that had created some urgency to act.

While a crisis can certainly be a catalyst for further integration, we should not wait for the storm to arrive, but should aim to fix the roof while the sun is still shining.

BJORN STORIM
Chief Executive Officer - The Bank of New York Mellon SA/NV

What the CMU needs - Simplicity, transparency, and a flag

As the current EU legislative cycle draws to a close, it is the right time to look back at the Capital Markets Union (CMU) Action Plan that the European Commission issued in September 2020.

It is good to remind ourselves of the three core objectives of the Action Plan, namely, making capital market financing more accessible to European companies, encouraging individuals to save and invest for the long-term, and integrating national capital markets into a genuine single market.

It is also good to remember that September 2020 was a time of cautious optimism, as there were indications that the shock of Covid would lead Europe to a new period of dynamism, and that the 16 actions in the CMU Action Plan would contribute to this.

Yet three and a half years later the situation, and the mood, are very different. In its recent report on CMU Key Performance Indicators, AFME arrives at the very sobering conclusion that there has been no visible medium-term progress on the CMU. This is obviously a disappointing situation. The single market is one of the great strengths of the EU, and yet the EU is failing to deliver a single market for investments and savings.

There is the major question of what can be done about this. At BNY Mellon we believe that there is no alternative, but that the CMU has to be on the agenda of the next Commission.

We suggest that the CMU agenda of the next Commission focuses on four policy areas, namely, Access, Rights, Information and Tax, as progress in these four areas is a core pre-condition for progress towards a single market. Access is about giving issuers the effective ability to access investors, and about giving investors the effective ability to access issuers. Enabling funding across borders without fiscal or regulatory barriers.

Rights is about ensuring that all issuers and investors have the same rights, no matter where they are located, and no matter how they access market infrastructure. From the perspective of a major custodian, the inability to provide depositary services to investment funds across the single market stands out as a particular deficiency.

Information is about ensuring that all parties have access to the information that they need to participate effectively in the market.

Tax is about ensuring that all parties are subject to a tax process that is highly efficient, digitally enabled and timely, that taxes at the correct rate, and that does not impose undue double taxation.

We do, of course, recognise that there has already been work in these areas. The Commission has taken valuable initiatives in the current legislative cycle, and we do want to highlight the importance and value of the proposals on the Consolidated Tape and the European Single Access Point, and the potential importance of the FASTER tax proposal. In the case of the latter, we are concerned about the effective outcome of the current legislative process and would welcome greater ambition on the part of Member States to deliver an effective pan-European operational approach to collecting and processing withholding taxes.

But we are also convinced that there is scope for much more work. We believe that to make real progress in these areas it is important that the work is shaped by two foundational principles, namely, simplicity and transparency.

There is a common, and very valid, perception by many parties, especially non-European investors, that European capital markets are complex and opaque. It is critical that this reality and this perception be changed. We need to ensure that when people invest in European capital markets they do not require 27 different legal opinions, 27 different operational processes, and 27 different tax forms.

We also need a project that can mobilise people, a flag that is recognised from afar.

But we also need more. We need a project that can mobilise people, a flag that is recognised from afar. The original single market project was an example of a project that mobilised people and businesses. They adapted their own planning based on the expectation of the future success of the project, thereby creating additional momentum. On a smaller scale, the recent issuance to private investors of a Belgian staatsbon/bon d'état benefited from a similar snowball effect, leading to a major success in expanding capital markets activity.

The CMU project has so far not managed to create such an effect. We hope that the next EU Commission and the EU Parliament, in cooperation with Member States, can make real progress and deliver on the CMU, as an essential building block for the EU.

But we need to find a theme that can act as a flag around which people and businesses can rally, and which can create momentum.

NIELS BRAB
Head of Group Regulatory Strategy & Chief Regulatory Officer - Deutsche Börse Group

Honesty is the best Policy: a new agenda to finally unleash the CMU's potential

With a new EU legislative cycle on the horizon, a decisive year lies ahead that provides the opportunity to advance on key challenges of our time. In light of geopolitical realities, sluggish economic growth, and constraint public finances, it will be particularly critical for the EU to ensure nothing less than a new vision for the Capital Markets Union (CMU). Despite decades of efforts, our capital markets remain underdeveloped compared to global markets, and their size does not correspond to the magnitude of the EU's economy.

Key strategic objectives to boost our markets' performance have been missed by placing the focus rather on technicalities. A new vision must be paired with profound reflections around the open strategic autonomy. It is time to move the needle with fresh ideas tied to the overall EU industrial strategy. With an eye on the future financing needs and different geopolitical realities it is clear: The advancement of the CMU is not optional anymore.

And while Rome was not built in a day, tangible results are needed with a more successful translation of the broader political objective into regulatory realities. This means boosting our primary markets and IPO ecosystem, addressing fragmentation, revitalizing our securitization markets, ensuring that citizens truly endorse our markets by guaranteeing better participation, tackling elements of incentivization such as taxation – and finally, establishing an EU equity fund supporting both retail and institutional investments. In a nutshell: EU capital markets must become the "first choice" for investment and financing.

The number of EU companies listing abroad or delisting from European exchanges has been a consequence of the failures of the past. The EU should nurture its equity ecosystem with a clear strategy to boost IPOs. We must aim for at least 25% of all global listings taking place in the EU by 2030. The figures clearly show that next to a competitive environment that is fit for start-ups and companies, we need to ensure deep liquidity pools and reduce fragmentation.

A powerful lever to increase liquidity and market capitalization is to mobilize capital which is currently held in bank accounts or tied in low yield pension schemes. Citizens must be given the tools to participate in markets: A new equity culture is needed. In this context and due to rising pressure on public budgets, the EU should urgently establish an EU equity fund that structurally boosts the EU's ecosystem by improving financing realities for the economy while allowing for a better participation by citizens and investors, covering all major indices from all 27 Member States, weighted by the respective market capitalization. With such an approach, all parts of the EU would benefit, and a fair distribution is being ensured. This should be paired with more streamlined tax systems and an increased attractiveness for citizens and investors via targeted tax incentives.

We need a policy-making approach that is based on empirical evidence and builds on best practices from other successful markets. Honesty is the best policy as Benjamin Franklin once put it. The consolidated tape certainly has great potential to support EU equity markets and exchanges remain committed to delivering via the EuroCTP joint venture. However, we should not forget that market structure continues to be the backbone of our ecosystem's effectiveness – where a hyper fragmentation driven by unfair regulatory competition continues to tilt the level playing field towards alternative execution venues (e.g. systematic internalisers), reducing the global competitiveness of our equity markets by an overly pronounced focus on explicit trading costs in secondary markets. Globally leading equity markets are marked by significantly less fragmentation and are home to a long-term strategy focused on "the greater good".

In a nutshell: EU capital markets must become the "first choice" for investment and financing.

We should not forget that we need our markets to be successful at global level in order for both politicians and civil society to see the benefits of a powerful and healthy capital markets ecosystem. This will also support a much needed political will to overcome the widespread risk aversions towards capital investments and market dynamics while profiting from long-term revenues.

The encouraging signs of the past months, including the drafting of competitiveness reports by former Italian Prime Ministers and various statements of key EU leaders, are strong testimonials to the new momentum and the urgency. Let's now focus on pooling our strength to deliver on a true roadmap that finally unleashes the much-needed CMU potential. We have it in our own hands – the time is now!

SYLVIA ANDRIESSEN
General Counsel - Euronext

Consolidation, single supervision... and much more

On 17 November 2023, ECB President Christine Lagarde addressed the European Banking Congress and underlined the need for Europe to complete the Capital Markets Union to foster the economic potential of our continent. She suggested two areas that would significantly contribute to the achievement of this objective. First, she noted that "stock markets which are part of wider groups perform better in terms of depth, IPO activity and liquidity, with the benefits particularly powerful for smaller exchanges", and she encouraged further consolidation of market infrastructure and exchange groups. Second, she explained that "supervision remains largely at the national level, which fragments the application of EU rules" and argued for direct, single supervision based on a single rulebook.

Euronext is the living proof that exchanges and financial infrastructure groups thrive when they join forces. Twenty-three years ago, the stock exchanges of Amsterdam, Brussels and Paris merged to form Euronext, the first pan-European capital market infrastructure, with the ambition to build the backbone of integrated capital markets in Europe and to connect the countries and markets of our continent. Today, regulated markets in Amsterdam, Brussels, Dublin, Lisbon, Milan, Oslo and Paris are operated by a common pan-European company to offer a single liquidity pool, empowered by a single technology platform. A true pan-European financial markets infrastructure provider across trading, clearing and settlement, Euronext helps overcome issues of fragmentation, providing benefits to investors and issuers alike. Following the migration of the trading of Italian equities to the Euronext technology platform in 2023, investors and issuers can benefit from a single liquidity pool with an aggregated market capitaliz ation of more than €6.5 trillion, which is twice the size of that on the London Stock Exchange. In 2023, c. 24% of European equity flows were traded on the Euronext platform.

Consolidation should be encouraged in Europe across the value chain and asset classes. Enhancing equity financing of European economies is a critical objective to strengthen industrial capabilities in Europe, and the next Commission must focus on creating a favourable environment for consolidation opportunities to emerge. Also, European capital markets would largely benefit from a unified access point to European custody, through a consolidation of European CSDs.

But consolidation is not a silver bullet. When pan-European groups face similar, but different rules, enforced by multiple national competent authorities, the resulting complexity prevents value creation commensurate with the potential of European economies. Today, Euronext still faces divergent applications of rules across its European markets. We must progress towards a single set of rules, enforced by a single supervision authority. It requires the phasing-out of national exemptions and domestic 'gold-plating' of EU regulations, as well as a reformed and empowered European Securities and Markets Authority. In the short-term, pan-European groups should transition under a single supervision authority to ensure a true level-playing field with subsidiaries of global financial firms operating from a single country.

We have a collective responsibility to act. If not now, then when?

The next European Commission must go above and beyond facilitating consolidation and creating single supervision. The global mandate of investors and the rise of passive investment have shifted European capital away from European equities. We must integrate fragmented legal landscapes across Europe, in particular regarding tax regimes applying to savings and investment as well as insolvency laws. We must solve the lack of deployment of private savings into equity markets. We must be committed to revamping pensions and saving systems to channel retail and institutional investments into European listed equity, and to introducing strong incentives for investors with a mandate focused on European mid-sized companies. We must protect the liquidity of smaller listed companies, through forceful measures such as, for example, a ban of internalization of flows below a certain level of stock liquidity, a mandate of trading least liquid stocks on the most liquid venue, and an option for SMEs to prevent their stock from being admitted to non-primary venues. We must de-regionalize European research coverage to increase the liquidity of smaller companies, through the public incentivization of sectorial rather than geographic coverage. Finally, we must increase retail participation through a harmonized treatment of retail investors across Member States and a roll-out of systematic financial literacy training.

FABRICE DEMARIGNY

Global Head of Financial Markets - Mazars

Refocusing the CMU to finance the Open Strategic Autonomy

The European Council declarations of Versailles and Granada call for an increase of the EU strategic autonomy of several key economic sectors by strengthening its own capacities in a carbon neutral, digital and innovative manner. Accordingly, the Single Market is repositioned as a core priority of the Union with the task of diminishing external dependencies to become a self-sufficient economic bloc. This new ambition requires the EU to set the adequate financing conditions. Unfortunately, the EU has not yet completed two efficient financing pillars: the Banking Union and the Capital Markets Union (CMU).

Diminishing dependencies by relocating factories, favoring the emergence of EU Digital and Artificial Intelligence companies, and financing a more sustainable economy, requires long term investments. Completing the Banking Union by allowing a free allocation of liquidity and capital permitting banking sector consolidation and more straightforward securitization alleviating banks' balance sheet, are two preconditions. As regards market financing, the key focus should be on equity capital – the basement to leverage any subsequent financing. Unfortunately, 80% of the significant amount of EU savings are left in bank deposits, invested in short term and debt financial products.

So far, the CMU has only been an attempt to unite national capital markets by favoring the free movement of financial services. Two full legislative cycles have led to repetitive updates of existing legislation and a disagreement to provide to a single supervisor significant central power. Regrettably, these intense legislative efforts have not translated into palpable results on the ground. Market financing has decreased and the share of the EU of the global capital markets has lost 8% in the last 15 years nearing 10%. In addition, apart from the debt markets, inter Community capital markets activity remains low and 70% domestic.

Possible ways forward to allow efficient capital allocation, would be for the CMU to go beyond the mere agglomeration of national capital markets and progressively become a Single Capital Market with 27 entry doors. The fundamental objective would be to create the missing congruence between abundant existing savings and the forthcoming capital needs. This could be achieved by acting both on the offer and demand of capital, by:

1. **Generating more long-term savings:** On the offer side, several saving products existing in some Members States, directing household savings toward more long-term investments, can be given an EU wide reach. Their success will depend on tax incentives given by Member States individually, regrouped in a reinforced cooperation or by unanimity. They can take the form of (i) an individual tax-free long-term equity holding wallet, (ii) a workplace saving plan, possibly abounded by the employer, and valid across the Single Market or, (iii) an autoenrollment individual pension plan valid in the entire Single Market.

2. **Developing Equity markets:** On the demand side, access to capital can be increased by (i) creating a dedicated segment of the Regulated Markets devoted to Small and Mid-Caps with proportionate listing requirements defined from scratch considering their age, size and ownership structure, before moving to the main segment (ii) favoring a joint venture between key EU Exchanges pooling together their Small and Mid-Sized segments to create a single IPO access to the EU public markets, (iii) allow this joint venture to be directly supervised by ESMA.

3. **Moving towards more integrated supervision:** adopting a bottom-up approach by which ESMA is progressively and pragmatically given more central powers by (i) measuring market integration each time a Directive or Regulation is reviewed and allocating to ESMA central powers if supervisory efficiency is better achieved at supranational level, and/or (ii) allowing cross-border markets or market players to opt-in for a direct supervision by ESMA.

The CMU should create the missing congruence between abundant savings and forthcoming capital needs.

The capital markets need resulting from the Open Strategic Autonomy call for a refocusing the CMU on its basic economic role: the EU wide meeting between offer and demand of capital. Clearly, moving towards a Single Capital Market will require the EU Institutions, the Members States as well as the financial sector industry, to measure the benefits of such further progressive integration. These benefits are numerous and go beyond the financial sector and include: long term financial vehicles in adequacy with and ageing population, better capitalized companies to finance the transition towards and more Sustainable Digital economy and, a more diversified, competitive and self-sufficient industrial and services EU ecosystem.